


Frequently Asked Questions About Local Agency Military Base Recovery Area (LAMBRA) Tax Incentives



CALIFORNIA FORM 3807

Local Agency Military Base Recovery Area Deduction and Credit Summary

YEAR 1999
Attach to your California tax return.

Name(s) as shown on return _____

A. Check the appropriate box for your entity type:
☐ Individual ☐ Estate ☐ Trust ☐ C corporation ☐ S corporation
☐ Exempt organization ☐ Limited liability company ☐ Limited liability partnership ☐ Partnership

B. Enter the name of the Local Agency Military Base Recovery Area (LAMBRA) business: _____

C. Enter the address (actual location) where the LAMBRA business is conducted: _____

D. Enter the name of the LAMBRA in which the business and/or investment activity is located. See General Information D, LAMBRA Designation. _____

E. Principal Business Activity Code number of the LAMBRA business _____
Enter the six-digit number from the Principal Business Activity Code Chart (pages 22 through 24).

F. Total number of employees included in the computation of the hiring credit, if claimed _____

G. Number of new employees included in the computation of the hiring credit, if claimed _____

Number of new receipts of the business _____

Number of new jobs _____

Number of new jobs if you have been doing business in a LAMBRA for two years. _____

Number of new jobs in the second year after operation in a LAMBRA _____

Number of new jobs prior to starting business in the LAMBRA. See instructions _____

Frequently Asked Questions About Local Agency Military Base Recovery Area (LAMBRA) Tax Incentives

What is a LAMBRA?

A LAMBRA is an area located in California that has been designated as such by the California Trade and Commerce Agency. The purpose is to stimulate growth and development in areas that experience military base closures. Taxpayers that conduct business activities within the boundaries of a LAMBRA may qualify for special tax incentives.

There are currently three LAMBRA's: Castle Air Force Base in Atwater, George Air Force Base in Victorville, and Mare Island Naval Shipyard in Vallejo.

Four other sites have received conditional designation as a LAMBRA. These sites are Alameda Naval Air Station in Alameda, Tustin Marine Corps Air Station in Tustin, Mather Field/McClellan Air Force Base in Sacramento, and San Bernardino International Airport and Trade Center (formerly Norton Air Force Base) in San Bernardino County.

Tax incentives are not available until an area has received final designation from the California Trade and Commerce Agency.

How do I know if I am located in a LAMBRA?

To verify whether your business is located within a LAMBRA, you may contact the California Trade & Commerce Agency at:

**ENTERPRISE ZONE PROGRAMS
CALIFORNIA TRADE AND COMMERCE AGENCY
801 K STREET SUITE 1700
SACRAMENTO CA 95814**

Telephone (916) 324-8211

FAX: (916) 322-7214

Internet Website: www.commerce.ca.gov

What are the available LAMBRA tax incentives and who is qualified to take those incentives?

There are four tax incentives available to taxpayers that invest in or operate a trade or business located within a LAMBRA. The tax incentives are the:

- Hiring credit;
- Sales or use tax credit;
- Business expense deduction; and
- Net operating loss (NOL) deduction.

For information about each tax incentive, get the *Local Agency Military Base Recovery Area Business Booklet*

(FTB 3807 Booklet) or the *Guidelines for Local Agency Military Base Recovery Area Tax Incentives* (FTB Pub. 1102).

How do I claim the LAMBRA tax incentives?

Use the *Local Agency Military Base Recovery Area Deduction and Credit Summary* (FTB 3807), located in the *Local Agency Military Base Recovery Area Business Booklet* (FTB 3807 Booklet). File this form with your California tax return to claim the LAMBRA tax incentives. For those tax incentives that require an election, the election is also made on this form.

The *hiring credit* and the *sales or use tax credit* do not require an election, and may be claimed on either an original or an amended return. If you claim either of these credits, you may not take another credit for the same wages or property.

The *business expense deduction* is claimed by making an election on the original return for the year in which the property is placed in service. The election may not be made on an amended return, and is revocable only upon the written consent of the Franchise Tax Board.

The LAMBRA *NOL deduction* is claimed by making an election on the original return for the year in which the NOL is incurred. The election may *not* be made on an amended return, and is revocable only upon the written consent of the Franchise Tax Board.

Do I have to include the form FTB 3807 with my tax return?

Yes. The Franchise Tax Board summarizes the information on this form and provides the information to the California Legislature or the California Trade and Commerce Agency. The information may be used to evaluate the usefulness of the incentives, to improve the program, or to make future decisions about continuation of the program.

Which employees qualify me for the hiring credit?

For taxable or income years beginning on or after January 1, 1999, you may qualify for the hiring credit if you hire an employee after an area has been officially designated as a LAMBRA and who, immediately before starting work for you, is any of the following:

- An individual who has been determined eligible for services under the federal Job Training Partnership Act (JTPA);
- A voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN);
- An economically disadvantaged individual age 16 years or older;
- A qualified dislocated worker;
- An individual who is enrolled in or has completed a state rehabilitation plan;

- A service-connected disabled veteran;
- A veteran of the Vietnam era;
- A veteran who recently separated from military service;
- An ex-offender;
- A recipient of:
 1. Federal Supplemental Security Income (SSI) benefits;
 2. Aid to Families with Dependent Children (AFDC);
 3. Food stamps; or
 4. State and local general assistance;
- A Native American

In addition, at least 90 percent of the employee's work must be directly related to a trade or business activity located in the LAMBRA and at least 50 percent of the employee's work must be performed inside the boundaries of the LAMBRA.

To determine which employees qualify you for the hiring credit for taxable or income years beginning *before* January 1, 1999, get the *Local Agency Military Base Recovery Area Business Booklet* (FTB 3807 Booklet) or the *Guidelines for Local Agency Military Base Recovery Area Tax Incentives* (FTB Pub. 1102) for the year in question.

How long must an employee work for a taxpayer to avoid the recapture rules of the hiring credit?

Recapture of the hiring credit is required if the employee is terminated before the end of the longer of the following two periods:

1. The first 270 days of employment (whether or not consecutive); or
2. Ninety (90) days of employment plus 270 calendar days.

A "day of employment" includes any day the employee was paid to work, regardless of whether the employee actually worked (including paid holidays, sick days, and vacation days). Exceptions to the recapture rules are discussed in the *Local Agency Military Base Recovery Area Business Booklet* (FTB 3807 Booklet) and the *Guidelines for Local Agency Military Base Recovery Area Tax Incentives* (FTB Pub. 1102).

Is the carry over of the net operating loss deduction to future years limited?

Yes. A LAMBRA NOL may be carried forward for 15 years, or until exhausted, whichever occurs first. In addition, if your business operates both within and outside the LAMBRA or is part of a unitary group, you must determine your LAMBRA NOL deduction by using the LAMBRA apportionment formula. The carryover deduction can offset only business income attributed to the LAMBRA. See the *Local Agency Military Base Recovery Area Business Booklet* (FTB 3807 Booklet).

May I take the sales or use tax credit if the property purchased was exempt from sales or use tax when purchased?

No. The sales or use tax credit is allowed only for sales or use tax actually paid or incurred on the purchase of qualified property. If the property was exempt from sales or use tax at the time of purchase, no sales or use tax was paid or incurred.

Do leases qualify for the business expense deduction or the sales or use tax credit?

Yes. If the property is acquired through a leasing arrangement that constitutes a financial (conditional sales) contract, the property may qualify for the business expense deduction or the sales or use tax credit or both.

To determine whether the lease qualifies as a financial (conditional sales) contract, refer to IRS Revenue Ruling 55-540, 1955-2 C.B. 39, and FTB Legal Ruling 94-2, March 23, 1994.

What is the maximum amount of LAMBRA credits I may take in any one year?

The total of all LAMBRA credits that may be taken in any taxable or income year may not exceed the lesser of the LAMBRA tax limitation or the:

- "net tax" limitation for individuals, or
- "tax" limitation for corporations.

California Revenue and Taxation Code Sections 17039 and 23036 define "net tax" and "tax" respectively.

What are the "area income" or "area tax" limitations on the LAMBRA tax incentives?

The maximum amount of LAMBRA credits that may be taken each year is limited to the tax on your business income attributed to the LAMBRA. The amount of such tax is determined by considering ALL your business activities conducted in the LAMBRA. The total LAMBRA credit is the combined amount of the current year's hiring credit and sales or use tax credit, and any prior year carryovers of these credits.

The LAMBRA net operating loss is limited to the LAMBRA business loss. The LAMBRA net operating loss *deduction* is limited to the LAMBRA income.

To determine "area income," taxpayers must add the business income or loss from all of the trade or business activities they conduct in the LAMBRA. Nonbusiness income is excluded from the calculation. For taxable or income years beginning on or after January 1, 1998, taxpayers that operate within and outside of a LAMBRA, must figure the total business income or loss apportioned to the LAMBRA by use of a property and payroll apportionment factor. For individual taxpayers with wages earned from a business located within and outside a LAMBRA, total LAMBRA business income or loss is determined by adding income or loss attributed to

LAMBRA activities. The *Local Agency Military Base Recovery Area Business Booklet* (FTB 3807 Booklet) provides the Income or Loss Worksheet for individuals.

The “area tax” is determined on this “area income” as if this amount was the taxpayer’s total income or loss for the year.

How are LAMBRA tax incentives claimed when passed through to partners, shareholders, or members?

The “area tax” or “area income” limitations apply at the individual level as well as the pass-through entity level. Individuals must determine their LAMBRA business income from ALL business activities they conduct in the LAMBRA to determine the amount of LAMBRA credits they can claim in the current year. To determine the individual LAMBRA income from pass-through investments, the apportionment factor determined at the pass-through entity level is applied to the distributive share of the individual investor’s income or loss. For example, if partnership A operates 80 percent in the LAMBRA and the partner’s distributive share of partnership income is \$100,000, the individual’s LAMBRA income from this activity is \$80,000. Wages paid by the pass-through entity also are considered business income and are apportioned to the LAMBRA based on the percentage of services performed within the LAMBRA.

What is the “net job increase” requirement?

To qualify for the LAMBRA tax incentives, a business must have a net increase of at least one job within the first two taxable or income years after commencing business within a LAMBRA. Taxpayers engaged in operations within a LAMBRA are allowed to use the LAMBRA tax incentives beginning in the first year of operation within the LAMBRA even though they have not yet fulfilled the net increase in jobs requirement. However, if at the end of the second taxable or income year after commencing business within the LAMBRA, a taxpayer does not fulfill the net increase in jobs requirement, all LAMBRA tax incentives claimed in prior years must be recaptured. See the *Local Agency Military Base Recovery Area Business Booklet* (FTB 3807 Booklet).

How do I compute the “net increase” in jobs for the LAMBRA?

To determine the yearly net increase in jobs, subtract the total number of full-time employees (defined as 2,000 paid hours per employee per year) employed by the taxpayer in this state during the taxable or income year prior to starting business operations in the LAMBRA, from the total number of full-time employees the taxpayer employs in this state during the second taxable or income year after commencing business operations in

the LAMBRA. The total number of employees employed in the LAMBRA equals the sum of:

(Total number of hours worked in the LAMBRA by hourly wage employees*) / 2000

Plus

(Total number of months worked in the LAMBRA by salaried employees**) / 12

*Not to exceed 2000 hours for any one employee.

**Not to exceed 12 months for any one employee.

Refer to the *Local Agency Military Base Recovery Area Business Booklet* (FTB 3807 Booklet) for an example of this calculation.

RELATED FTB FORMS AND PUBLICATIONS

Guidelines for Local Agency Military Base Recovery Area Tax Incentives (FTB Pub. 1102)

Local Agency Military Base Recovery Area Business Booklet (FTB 3807 Booklet)

Economic Development Areas Audit Manual